
Challenges Of Expansion to a Foreign Location

The purpose of this analysis is to determine the challenges associated with selling and manufacturing the Ford Edge SUV in China. Currently the Edge is manufactured in Canada and sold in USA, Mexico, Germany, Canada and Australia. China is now the largest vehicle market in the world and expansion to this region can increase sales for the vehicle which has already done well in North America and parts of Europe.

Global Economic Conditions

The global economy continues to rise in lieu of the financial crisis experienced by multiple countries. In 2017, the global economy increased by 3% the highest growth rate since 2011 ("World Bank Group - International Development, Poverty, & Sustainability", 2018). 2018 is predicted to remain steady with GDP predicted to increase minimally. China has shown similar increases in GDP and is leading the charge along with other nations such as the U.S., Japan, Germany and the U.K.

Forecasts

The population growth rate in China is 0.41% ("The World Factbook: CHINA", 2018). This figure translates to a birth rate of 12.3 per 1000 of the populations. The size of the population has steadily risen since 1962 as shown in Figure 1. The current population is 1.391 billion and is currently predicted to exceed 1.4 billion by the year 2021 ("The World Factbook: CHINA", 2018)

Economic activity in China remains resilient, with GDP growing by 6.9 percent in 2017 and 6.8 percent in the first quarter of 2018 ("China Economic Update - May 2018", 2018). In 2016 the GDP of China was \$11.2T and its GDP per capita was \$15.5k. China will surpass the US as the world's largest economy by 2020 (Standard Chartered Bank, 2018). GDP per capita growth (annual %) in China was reported at 6.7 % in 2016, according to the World Bank and is forecasted to be 5.8% in 2022

Exports from China rose 12.2 percent from a year earlier to USD 215.57 billion in July, beating forecasts for a 10 percent increase and up from a 11.2 percent gain in June ("China Exports | 1981-2018 | Data | Chart | Calendar | Forecast | News", 2018). The export of good and services (% of GDP) can be seen since 1960 in Figure 4. Export growth is forecasted to rise in alignment with China's increasing GDP. Sales in China continue to rise as the economy grew 6.7 percent in June when compared to the year before ("China's Strong Economic Growth Figures Belie Signs of Weakness", 2018).

Competitor Production

Top competitors manufacturing SUV's in China include Geely, Changan, Dongfeng, Shanghai Automotive, Guangzhou, Chery, BYD, and Zotye. While there are several domestic brands in China the country is also full of imports such as Buicks, Volkswagens, Hondas and Nissans. The greatest threat to Edge vehicle sales will be from a Chinese manufacturer known as Chery

who began production in 1997. China's most frequently sold SUV's are shown

Forecast Sales

Vehicle sales in China have been on a steady rise since 2008 with passenger vehicles increasing from 6.76 million per year to 24.72 million units sold in 2017 as shown in Figure 7. China became the world's largest vehicle market in 2009 and continues to grow year over year ("China overtakes US in car sales", 2010). As the living standard and wages in China increase so does vehicle ownership. Being able to afford a car in China is not as challenging as it once was. People with an average salary can now afford to buy an inexpensive car in China.

Types of Economy

There are several types of economies that exist such as closed, mixed, and market. A closed economy is one where the country does not allow any imports to enter the country or any exports to leave the country. This type of economy is quite rare by today's standard due to globalization. The most common form of economy today is known as mixed where some portions of the economy are government controlled while others are decentralized and ran by private business and or individuals. A market economy is an economy in which there is little or no involvement from the government and individuals and businesses are free to do as they please in the market place simply operating under the laws of supply and demand.

China is currently operating with a mixed economy where a portion of the economy is controlled by the government and others are decentralized. For example, currently the Chinese government does not allow 100% foreign ownership of manufacturing plants in China. The greatest stake a foreign company can have in a China with a joint venture is 50%. Such is the case of Buick Envision automobile that is built in China by way of a joint venture between USA's GM and China's SAIC Motors.

Differences in Types of Economy

A closed economy is one where the country does not allow any imports to enter the country or any exports to leave the country. This type of economy would serve no purpose to Ford Motor Company as the company's intent is to place a manufacturing facility in China to support China and Europe sales. The inability to export product would be a concern as well as the inability to import product in to the country to support production. China is by no means ready to be a closed economy in the area of automotive manufacturing. The required supply network is far too diverse and reaches areas well outside of China.

As for a mixed market that is something that Ford can live with however in the China auto industry that essentially means a joint venture. In order for a foreign investor to enter China a joint venture must exist between the state as well as Ford Motor Company. This is manageable however, Ford Motor Company is not accustomed to handing over half of a facility to a government body. A market economy would be idea for Ford Motor Company since there would be minimal interference by government bodies and Ford would be free to conduct business as it saw fit provided it obeyed by the laws of the land. This would provide much more operating freedom within the country however this is not consistent with the Chinese government's wishes for the time being.

Credit Market Conditions

Interest rates within China are at a 25 year low coming in at 2.90%. In light of this, credit expansion is on the decline within the country according to the People's Bank of China. Many speculate this is largely due to the trade war ongoing with the United States. Low financing interest rates can be extremely attractive to potential buyers of a new vehicle thus increasing the demand. Low interest rates in the region will also benefit Ford with the acquisition of equipment and hardware required to build the new facility.

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